

## Message Text

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ORIGIN EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01  
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07  
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06  
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01  
PRS-01 /099 R

DRAFTED BY EA/IMS:ARDORNHEIM:CCH  
APPROVED BY EA/IMS:EDWARD C. INGRAHAM  
-----280800Z 024625 /21

R 271542Z APR 77  
FM SECSTATE WASHDC  
TO AMEMBASSY JAKARTA

C O N F I D E N T I A L STATE 094571

E.O. 11652: GDS

TAGS: ENRG, EFIN, ID

SUBJECT: IRS AND INDONESIAN PRODUCTION-SHARING CONTRACTS

1. NATOMAS ATTORNEY REPORTS THAT OIL COMPANIES HAVE NOW RECEIVED COPIES OF GOI DRAFT TAX DECREE. HE HAS BEEN CONSULTING WITH ROGERS AND WELLS AND EXPECTS TO BE ABLE TO FILE NEW INFORMATION WITH IRS NEXT WEEK. DEPENDING ON IRS WORKLOAD, ITS REACTION MAY NOT BECOME AVAILABLE UNTIL LATE MAY ACCORDING TO ATTORNEY.

2. TREND EXPLORATION PRESIDENT WILSON TOLD IMS THAT HE EXPECTS ANOTHER PARTNER (SOUTHERN CROSS), WHICH IS HANDLING TAX ISSUES WITH IRS, TO PRESENT NEW GOI TAX INFORMATION TO IRS SHORTLY. WILSON POINTED OUT THAT SOME OF PARTNERS IN PETROMER TREND OPERATION ARE MORE ANXIOUS THAN OTHERS FOR AN EARLY RESOLUTION OF ISSUES WITH IRS, BECAUSE THEIR CORPORATE FISCAL YEARS END BEFORE  
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DECEMBER 31, 1977 AND THEY MUST THEREFORE COMPLY WITH IRS RULING SOONER. BECAUSE TREND IS OPERATING ONLY IN ONE CONTRACT AREA IN INDONESIA, AND THEREFORE IS NOT AFFECTED BY CONSOLIDATED INCOME ISSUE, IRS INDICATED AT ONE TIME THAT IT WAS PREPARED TO ISSUE TREND A QUALIFIED RULING, BUT THIS OFFER HAS SINCE BEEN WITHDRAWN.

3. UNION OIL'S TAX COUNSEL LIKEWISE EXPECTS TO BE  
SUBMITTING ADDITIONAL INFORMATION TO IRS VERY SOON.  
HE OBSERVED THAT OIL COMPANIES HAVE BEEN "RECONCILED  
TO PRODUCTION-SHARING CONTRACT APPROACH" FOR MANY  
YEARS AND HAVE NEVER EXPECTED TO RECOVER THEIR  
EXPLORATION COSTS IN UNSUCCESSFUL CONTRACT AREAS  
FROM ANY REVENUES THEY MIGHT HAVE DEVELOPED IN CON-  
TRACT AREAS THAT ARE PRODUCING. HE ALSO FLAGGED  
TROUBLESOME LEGAL ISSUE ARISING OUT OF MEDIUM (CRUDE  
OIL) IN WHICH FOREIGN OIL COMPANIES PAY THEIR INCOME  
TAXES TO GOI; HOW CAN A TAX BE PAID WITH SOMETHING  
WHICH GOI OWNS UNDER INDONESIAN LAW UNTIL IT PASSES  
SHIP'S RAIL?

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PRODUCTION, PROFIT SHARING, CONTRACTS  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Original Handling Restrictions:** n/a  
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**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
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